

## The Legislative Fiscal Division

Presents:

Profile of...

## Commissioner of Higher Ed

## State of Montana



## Agency Profile

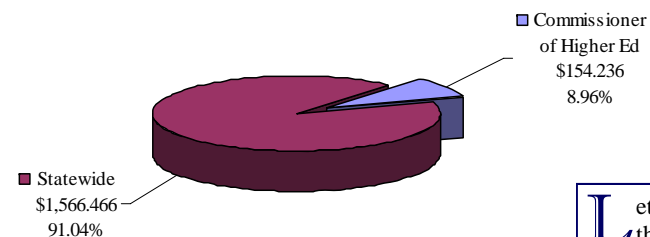
This agency profile will discuss...

- structure and funding
- primary functions and
- historical expenditures

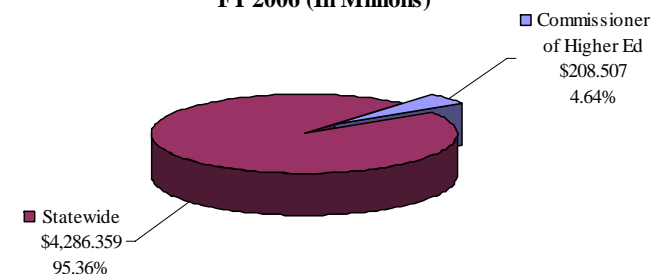
The profile also includes information on how decision makers can effect change in the agency's expenditures along with a listing of pertinent statistics. For an explanation of terms used in this profile, consult the "Background on the Agency Profiles" at: <http://leg.mt.gov/css/fiscal/default.asp>

Sept. 2006

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General Fund Statewide Comparison  
FY 2006 (In Millions)

Let's begin by putting the agency's size in perspective by comparing it to state government as a whole.

Total Funds Statewide Comparison  
FY 2006 (In Millions)

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Legislative Fiscal Division

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Section E  
Education



## What the Agency Does

The Montana University System (MUS) provides a public postsecondary education for Montana residents and out-of-state students at 4-year and 2-year campuses through: 1) University of Montana, with campuses in Missoula, Butte, Dillon and Helena; and 2) Montana State University, with campuses in Bozeman, Billings, Havre and Great Falls. There are also 2-year community colleges located in Kalispell, Glendive, and Miles City, which have shared governance between local trustees and the MUS Board of Regents. The seven Tribal Colleges located on Reservations across Montana, although not governed by the Board of Regents, receive limited funding assistance from the MUS.

The Montana Constitution, Article X, section 9, grants governance authority over the MUS to the Board of Regents (Board), with seven members appointed by the Governor. The Constitution charges the Board with hiring a Commissioner of Higher Education who serves as its executive staff. The Office of the Commissioner of Higher Education (OCHE) is the state-level administrative organization that provides management support and administrative leadership to all educational units and research and public service education agencies, for student support/assistance programs, and for financial aid functions of the MUS.

**Total Montana University System FTE: 4575.55**

- University System Educational Units = 4084.35
- OCHE/Statewide Administrative Units = 107.7
- Research Education & Public Service Agencies = 383.5



## How Services Are Provided

The Montana University System operates the following program units with the following functions:

- University Educational Units – provide postsecondary education to resident (Montana) and nonresident (out-of-state) students leading to the undergraduate 2-year Associate's Degree and 4-year Bachelor's Degree and graduate education leading to the Master's Degree and Doctorate Degree. The MUS also partners with business and industry to provide job skills education and training, as well as applied and basic research



## Statutory References

The primary statutory references defining duties and responsibilities of the department are found at the following locations:

Montana Constitution, Article X, section 9, grants the Board of Regents governing authority over the Montana University System, defines the Board of Regents as seven members appointed by the Governor who will hire a Commissioner of Higher Education as their chief executive, and requires that MUS funds be audited on a regular basis.

Title 20, chapter 25, MCA, University System, is the primary statute that governs the Montana University System.

17-7-304, MCA, directs the reversion of state funds appropriated to the MUS.

Title 20, chapter 15, part 300, MCA, governs the budgeting and finance of community colleges.



## Statewide Factors With Impact

In addition to the factors discussed above, a number of factors common to many agencies will also impact changes in MUS expenditures over time, such as utility costs and personal service costs and salaries and benefits (e.g., health insurance and workers' compensation insurance). Personal service costs account for approximately 73 percent of MUS expenditures from the Current Unrestricted Fund, the largest fund in the overall budget.

From this agreement and set of shared policy goals, the PEPB has proposed building accountability measures with a clear set of deliverables into the state budget, HB 2, through discreet decision packages (DPs). The PEPB has recommended three potential accountability mechanisms for the legislature to consider in the state budget, including:

- That state funds are appropriated to the MUS in HB 2, and a required report must be submitted to some interim legislative committee (e.g., PEPB) that addresses how that funding accomplished the specific list of accountability measure deliverables that would be outlined in the companion bill.
- That state funds are appropriated to the MUS in HB 2 for the first fiscal year of the biennium with additional funding appropriated in the second year, but the second year funding is "contingent" upon the MUS submitting a report to some interim legislative committee that addresses how the first year funding was used to accomplish the specific list of accountability measure deliverables. If that interim committee is satisfied with the deliverables, then it has the authority in the companion bill to recommend to the executive budget office that the "contingency" has been met so that the second fiscal year funds may be released
- That state funds are appropriated to the university system in HB 2 as one-time-only (OTO) funds, but during the interim the university system must submit a report to some interim legislative committee that addresses how those OTO funds were used to accomplish the specific list of accountability measure deliverables. If that interim committee is satisfied with the deliverables, then they are given the authority, through the companion bill, to recommend to the executive budget office that those OTO funds are to rollover into the base year funding for the subsequent budget. In essence, in return for accomplishing deliverables, the companion bill would authorize that OTO funding could become ongoing funding

Through these budgeting mechanisms, PEPB has recommended that the legislature could constitutionally effect change and bring public policy influence to the MUS, through the legislative power of appropriation.

Once again, by making it clear what higher education outcomes the legislature wants to "purchase" from the Montana University System and then appropriating funds specifically for those services, the legislature could well have more impact on higher education service delivery in Montana.



#### University of Montana (UM)

- Four-year campus at Missoula
- Four-year campus at Butte (Montana Tech)
- Four-year campus at Dillon (Montana Western)
- Two-year campus at Helena (College of Technology)
- Two-year campus at Missoula (College of Technology)
- Two-year campus at Butte (College of Technology)

#### Montana State University (MSU)

- Four-year campus at Bozeman
- Four-year campus at Billings
- Four-year campus at Havre (MSU-Northern)
- Two-year campus at Great Falls (College of Technology)
- Two-year campus at Billings (College of Technology)

- **Community Colleges** – three campuses provide post-secondary education, mostly to Montana students, leading to the 2-year Associates Degree, as well as job-specific certificate programs and skills training, at:
  - Flathead Valley Community College in Kalispell and Libby
  - Miles Community College in Miles City
  - Dawson Community College in Glendive
- **Tribal College Assistance** – financial assistance for resident non-beneficiary (nontribal member) students who attend the seven tribal community colleges located on the Reservations of Montana.
- **Office of the Commissioner of Higher Education (OCHE)** – provides comprehensive administrative support and leadership for all units of the MUS, including the following programs:
  - Guaranteed Student Loan Program – the guarantor for private lending to students
  - Workforce Development Program – federal Perkins Grant administrator to support vocational education
  - Student Assistance Program – financial support, including grants based upon merit and economic need, as well as work-study programs
  - Talent Search Program – academic support to at-risk youth at the secondary school level to encourage postsecondary education upon high school graduation

- Improving Teacher Quality Program – provides grants to secondary math and science teachers for continuing professional education
- Board of Regents – the governing body for the MUS
- **Research Education and Public Service Agencies/Programs** – combine research and education to serve students, communities, business, and the state of knowledge in specific disciplines.
  - **Agriculture Experiment Station** – research and experimentation in ag science at MSU
  - **Cooperative Extension Services** – education-based applied research at MSU to assist community development
  - **Forestry and Conservation Experiment Station** – provide scientific investigation of resource management and conservation at UM
  - **Bureau of Mines** – provide advisory, technical, and information services on geologic, mineral, energy, and water resources, as well as research; with facilities in Butte and Billings
  - **Fire Services Training School** – provide professional development and training for community fire and rescue service personnel, located in Great Falls

Montana University System	
FTE Employees Per Unit/Division - FY2006	
Division/Unit	FY2006 FTE
Educational Units (Campuses)	4084.35
Office of the Commissioner of Higher Education (OCHE)	
Administration	20.9
Student Assistance	1
Talent Search	19.95
Workforce Development	5
Guaranteed Student Loan	57.2
Employee Benefits/Insurance	3.65
Agriculture Experiment Station	204.98
Extension Service	125.47
Forestry & Conservation	
Experiment Station	12.19
Bureau of Mines	32.77
Fire Services Training School	8.09
Total MUS FTE	4,575.55

Sources: OCHE Data - SABHRS Report MTHR2005 (FY2006)  
Units/Agencies - MBARS Version 2009-5102-B-01 (FY2006)

The Montana University System provides these programs and services primarily through the employment of state FTE, who are employed as teaching faculty, researchers, student assistants, counselors, administrators, mentors, loan officers, etc. Personal services account for 73.5 percent of the Current Unrestricted Fund expenditures for the university system in FY 2005, while operations account for an average of 14 percent of expenditures. These proportions have essentially remained steady over the past decade.



Therefore, state funding represents a significant proportion of the total revenue in the MUS which makes the appropriations power of the legislature a significant tool for effecting change.

On the other hand, a series of Montana Supreme Court cases have established that the legislature, despite its power of appropriation, cannot use that authority to attempt to indirectly govern the MUS. The legislature may, however, set conditions on state funds that, if the universities accept those funds, then they also accept those conditions. This governance and appropriations relationship between the Board and the legislature is often referred to as the murky line so that any mechanisms through which the legislature approaches effecting change and public policy within the MUS will need to consider these constitutional constraints.

During the 2005-2006 interim, the Postsecondary Education Policy and Budget subcommittee (PEPB) devised a document of Shared Policy Goals and Accountability Measures that defines some of the specific public policy goals that the legislature has for the MUS. That document was jointly signed by both the legislative members of PEPB as well as the Board of Regents, and the document subsequently served as the blueprint for the Board of Regents strategic plan for the MUS.





## Agency Functions, State Purposes, & Customers Served

The agency is structured to perform certain functions in support of general state government purposes. The following lists the major functions, purpose of provision of the functions, and primary customers served.

<i>Overarching Policy Objectives</i>	<i>Major MUS Functions</i>	<i>Primary Customers</i>
<i>Develop Full Educational Potential of State's Citizens</i>	Provide post-/secondary education instruction Financial aid programs Employee health & benefits program Administrative leadership & support	Students  Students and families MUS Employees MUS Units, Programs, and Agencies
<i>Reduction of Incidence and Impacts of Poverty/Disability</i>	Academic support/assistance programs	Students
<i>Economic/Business Development</i>	Research and technology transfer Workforce development & training	Businesses Employers and employees

## How Can the Legislature Effect Change Within the Montana University System?



The Montana Constitution extends governance authority over the MUS to the Montana Board or Regents but leaves the power to appropriate state funds for the MUS to the legislature. This system of split authority essentially requires that the legislature use the state budget process and the “general budget act” (HB 2) as the primary means with which to effect change and influence public policy upon the MUS.

As noted above, state funding for the MUS in FY 2006 was about \$169 million, and the portion that is appropriated to the university educational units represents about 39 percent of the funding for the campuses’ current unrestricted fund (that which supports the essential educational mission of each campus) and about 18 percent of all revenue funds throughout the MUS.



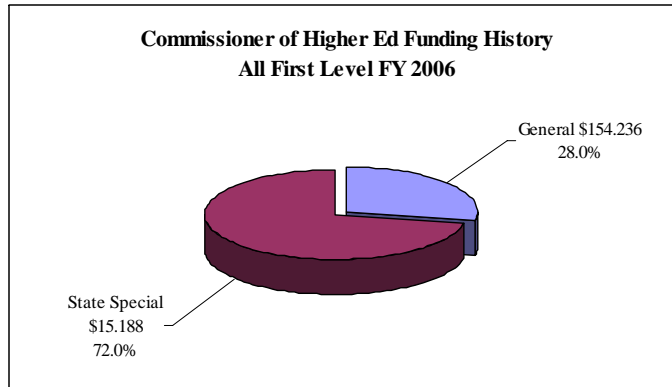
## How Services Are Funded

The portion of the Montana University System budget funded from state appropriations is primarily from general fund revenue, with state special revenue from the 6-percent property tax mill levy, and federal revenue that supports Guaranteed Student Loan, Gear-Up, Perkins Loan, and the Improving Teacher Quality grant program.

Compared to most state agencies, the overall budget structure for the MUS is unique for the following reasons:

- The MUS receives revenue from three sources that fund its primary educational mission. However, only one of these sources appears in detail as part of the total appropriations in House Bill 2 (HB 2). These three sources include:
  - Funds appropriated directly from the State of Montana, including general fund, state special revenue, and certain federal special revenue. These funds are appropriated in HB 2 and appear in all HB 2 totals. The legislature has the most budgetary and policy impact through appropriation of these funds.
  - Other public revenue sources, such as most federal financial aid and education-related government research grants, are appropriated generally in HB 2 language and do not appear in the HB 2 detail totals, as the funds are received directly by the educational units and public service agencies.
  - Private/contract revenue sources, such as tuition, foundation revenue, and campus services, which are not appropriated at all by the legislature but governed solely by the Board of Regents
- Although the revenue sources in HB 2 are similar for all state government agencies, once state-appropriated funds reach the university units, they are reclassified according to their source and use. Thus, general fund, property tax mill levy revenue, and interest earnings appropriated in HB 2, together with student tuition, are combined and classified as “current unrestricted funds” in the MUS operating budget. At this point, these funds may be used by the units for any lawful purpose, and it is this “current unrestricted fund” that supports the essential educational mission of the university units.

- In addition to the current unrestricted fund, the MUS budget structure includes six additional funds that support the other additional functions of each university, all of which are distinct from but essentially support the educational mission of the current unrestricted fund. This fund structure and the proportional allocation of revenue among these funds is displayed in the following table.



<b>Montana University System FY2006 Budget Structure Major Funds/Expenditure Allocation and Revenue Sources</b>	
<b>Fund (% of Budgeted Expenditures)</b>	<b>Revenue Source for Each Fund</b>
Current Unrestricted Fund (37% of expenditures)	State Funds from HB 2 – General Fund and Property Tax Mill Levy Student Tuition Interest Earnings (primarily from tuition funds)
Current Restricted Fund (31% of expenditures)	Grant contracts (Government, Foundation, and Corporate) Some federal grant funds from HB 2 Federal financial aid from HB 2 Scholarships
Current Designated Fund (17% of expenditures)	Various student fees (athletics, activities, academic support) Indirect costs recoveries State work-study funding
Auxiliary Fund (8% of expenditures)	General on-campus services to students Residence hall fees Food Services
Plant Fund (7% of expenditures)	LongRange Building funds from HB 5 Campus building fees
Student Loan Fund (less than 1% of expenditures)	Perkins Federal Loan program Student Loans Potter Loan Fund
Endowment Fund (less than 1% of expenditures)	Philanthropic donations that restrict the principal
Source: Board of Regents Operating Budget FY2006 (Schedule CHExx1)	

As the tuition chart illustrates, mandatory tuition and fees have experienced a steady increase at all MUS institutions over the past nine years. In particular, the 4-year campuses have experienced increases that average 8.2 percent each year. While community college tuition and fees remain the lowest at \$2,502 in FY 2006, even these colleges have increased tuition at an average rate of 7.3 percent per year.

The data indicates a spike in tuition increases in 2002 and 2003, as the state economy was struggling in those years so that state general fund reductions were implemented and the Board of Regents implemented a tuition surcharge in order to backfill the reduction in general fund revenue.

This chart trend upward seems to mirror the prior charts that illustrate a steady downward trend in the percentage of state funding for the university campuses. As noted earlier, the mathematical formula that is used to derive the state percent share has the tendency to contribute to that downward trend, without a conscious policy decision. On the other hand, MUS expenditures, as reflected in the budgetary present law adjustments, have tended to increase at a higher rate than other state agencies, especially in the areas of personal services and building operations (e.g., utilities).

MUS officials note that teaching faculty and staff, in particular at the major research campuses, compete in a national employment market, which drives salaries to a higher level than other state agencies. In addition, university campuses include a large number of building facilities, many of which are older buildings, with large operations costs. Utility costs, in particular, are increasing at a higher rate for the campuses, which may be a reflection of the harsher climate locations of university campuses (e.g., Bozeman, Butte, Havre) as opposed to the majority of other state buildings that are located in Helena.

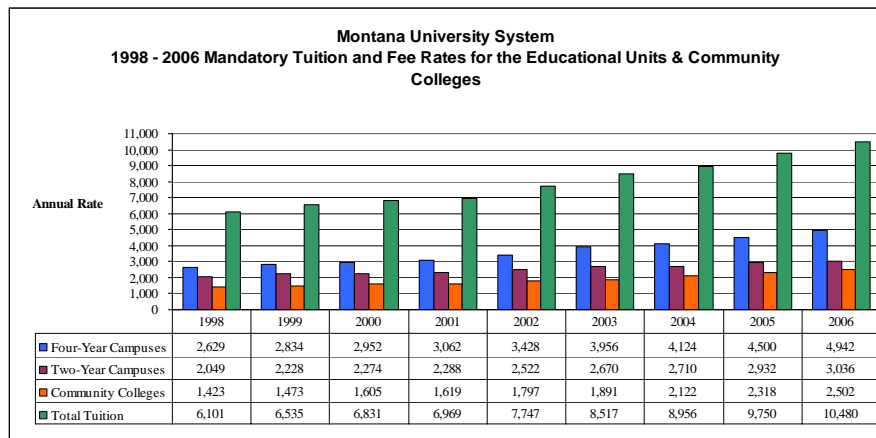
Overall, with an average annual increase of 7 percent for mandatory tuition and fees, the MUS campuses are part of a national trend of tuition rate increases. These national and state trends have pushed the issues of affordability and access to the front of public policy discussions related to higher education.



Student enrollment across the MUS, including both resident and nonresident students, has grown an average of just .78 percent per year over the past decade. However, the 2-year colleges of technology have grown at a much higher rate of 3.65 percent per year. By 2006, college of technology students represent more than 11 percent of all students in the MUS, up from 8.57 percent in 1997. In the meantime, enrollment at Montana's three community colleges has been increasing at a rate of 1.17 percent per year.

University enrollment, in particular for Montana resident students, is expected to be volatile and on a downward trend over the next decade, as the number of students graduating from Montana high schools is projected to decrease over the next several years.

## MUS Tuition History



Montana University System - Mandatory Tuition/Fees Growth				
Type of Educational Institution	Institution Type Tuition as Percent of All Tuition		Average Annual Tuition & Fee Growth (1998 - 2006)	Total Tuition & Fee Growth Over Nine Years
	1998	2006		
Four-Year Campuses	43.1%	47.2%	8.2%	88.0%
Two-Year Campuses	33.6%	29.0%	5.0%	48.2%
Community Colleges	23.3%	23.9%	7.3%	75.8%
Total Tuition	100%	100%	7.00%	71.78%

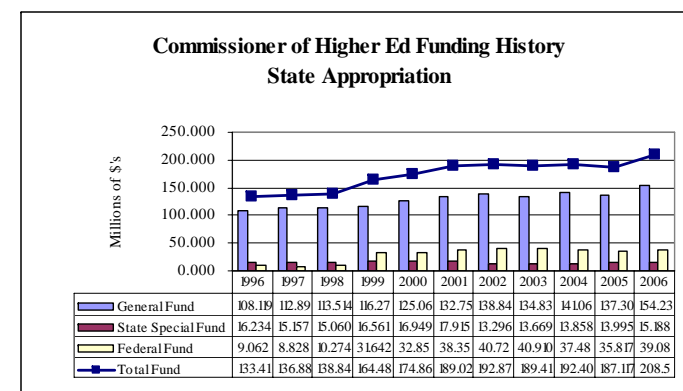
Source: Montana University System, Inventory and Validation of Fees Report (1997-2006)  
[Units use weighted averages...Community Colleges use averages]



## Related Data & Statistics

Element	1996	2006	Significance of Data
University/COT Enrollment (all students - FTE)	30,316	33,091	Indicates demand for services
Community College Enrollment (all students - FTE)	2,159	2,338	Indicates demand for services
Tribal College Enrollment (non-tribal member students - FTE)	342	298	Indicates demand for services
Avg. Annual Resident UG Tuition: All University Units Colleges of Technology	\$1,777 \$1,516	\$3,797 \$2,350	Cost of access to higher education for student/family
Avg. Community College Tuition & Fees (Annual Resident In-District Students)	\$1,189	\$2,502	Cost of access to higher education for student/family
Total State Funded Student Assistance	\$5.2 million	\$4.4 million	Indicates fiscal commitment to access to higher education
Total Annual amount of Guaranteed Student Loan Debt	\$72.9 million	\$181 million	Indicates cost of access to higher education for student/family
Average Student Loan Debt After 4-year Degree	\$18,307	\$20,179 (FY 2005)	Indicates cost of access to higher education for student/family
Average Student Loan Debt After 2-year Degree	\$7,971	\$13,950 (FY 2005)	Indicates cost of access to higher education for student/family
Percentage of State Funding for MUS Educational Units (Current Unrestricted Fund)	55%	40%	Indicates state share of support for higher education

## Expenditure History



Because of these distinct funding sources, state-appropriated funds, and private funds governed by the Board of Regents, an understanding of MUS expenditure history requires three illustrations of financial data. The state appropriation funding history chart on page 7 demonstrates expenditures solely for funds appropriated by the legislature. The chart on page 10 considers expenditures from the Current Unrestricted Fund, which, as discussed earlier, includes all HB 2 funds from general fund and state special revenue (6-mill levy), together with the major “private source” of funding governed by the Board of Regents, student tuition. Current Unrestricted Fund expenditures account for 37 percent of overall MUS expenditures and represent the area in which the legislature has the most budget and policy impact on the MUS budget. The final chart on page 12 illustrates total expenditures from all of the above funds in order to demonstrate the total expenditure budget for the MUS, of which state funding comprises approximately 18.2 percent of the total in FY 2006.

## Reasons for Expenditure Growth/Change

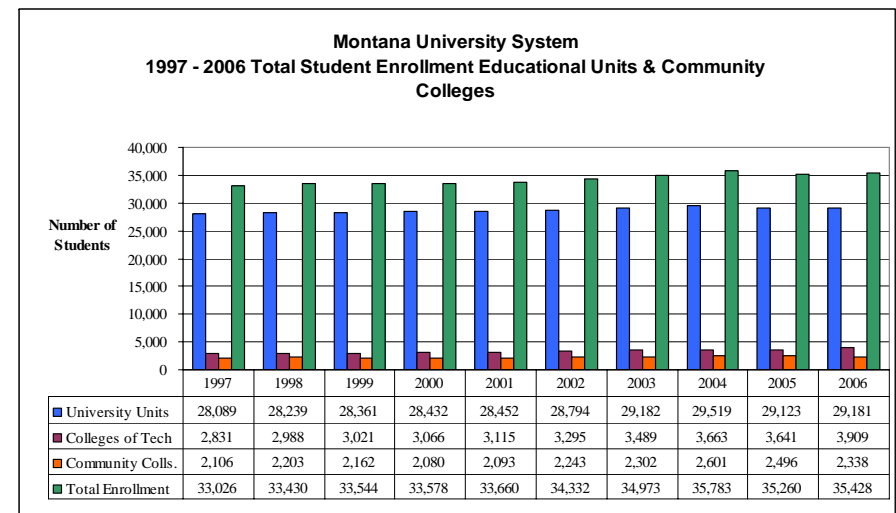
The state appropriation chart demonstrates that the primary growth area has been in federal revenue expenditures resulting from specific accounting changes and a larger loan portfolio in the federal Guaranteed Student Loan program. The average growth rate of Federal Revenue, 16 percent per year, skews the overall average upward and is not an accurate growth indicator in itself as most of this growth is merely an accounting change, not a reflection of new or different activity in the program (explained below).

There are a number of expenditure spikes, both downward and upward, that can be explained as follows:

- There is a \$21.4 million spike in Federal Special Revenue expenditures in FY 1999, after which there is some steady growth on top of this spike. This dramatic increase and plateau at that increased level can be attributed to four events:
  - An accounting change in the Guaranteed Student Loan (GSL) program, required by a legislative audit finding, whereby federal funds used to purchase student loans from private lenders are to be booked as Revenue/Expenditures rather than Receivables/Payments. This accounting adjustment does not indicate any change in GSL activity, but simply moves \$24 million “on-budget” starting in FY 1999
  - Subsequent to this accounting change, the GSL portfolio has experienced steady growth as the costs of higher education have increased, tuitions have been raised, and the resulting student debt has grown

Thus, as these charts illustrate, the funding mix for the university educational units has changed in the last 20 years. As state revenue support has increased at a rate of 1.7 percent per year, while the state percent share has declined at a rate of 3.5 percent per year, from 74 percent in FY 1988 to 37.8 percent in FY 2007. A primary driver of this steady decline has been the mathematical formula used to determine the state percent share and the different definitions of the present law budget factors between state government and the MUS.

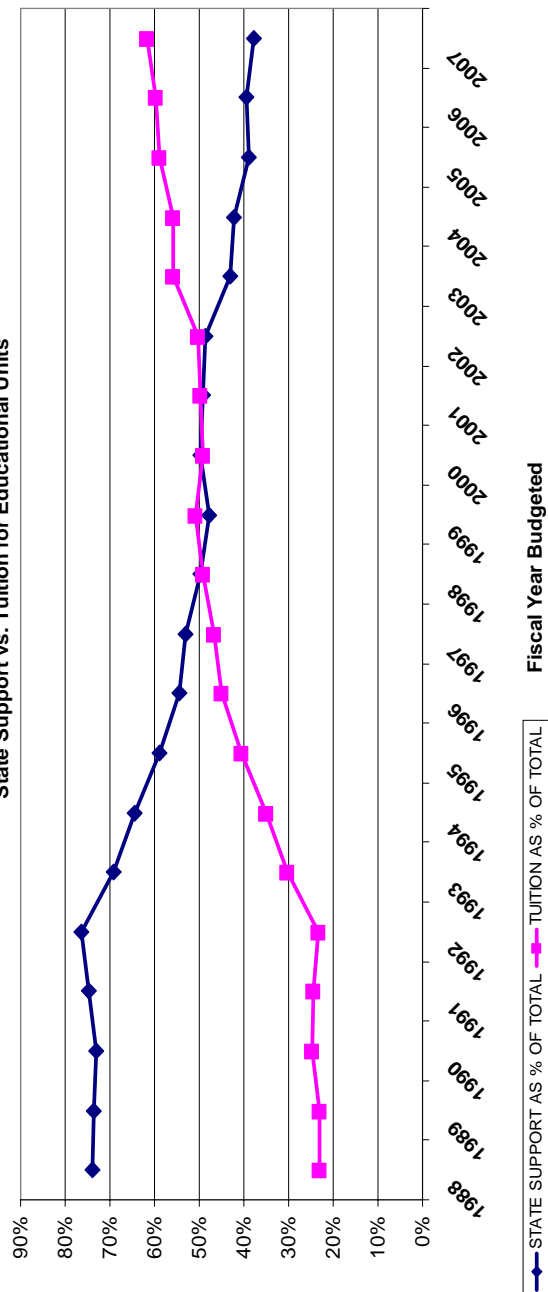
## MUS Enrollment History



Montana University System - Student Enrollment Growth			
Type of Educational Institution	Percent of Total Student Enrollment		Average Annual Growth (1997 - 2006)
	1997	2006	
University Units	85.05%	82.37%	0.42%
Colleges of Tech.	8.57%	11.03%	3.65%
Community Colls.	6.38%	6.60%	1.17%
Total Enrollment	100%	100%	0.78%



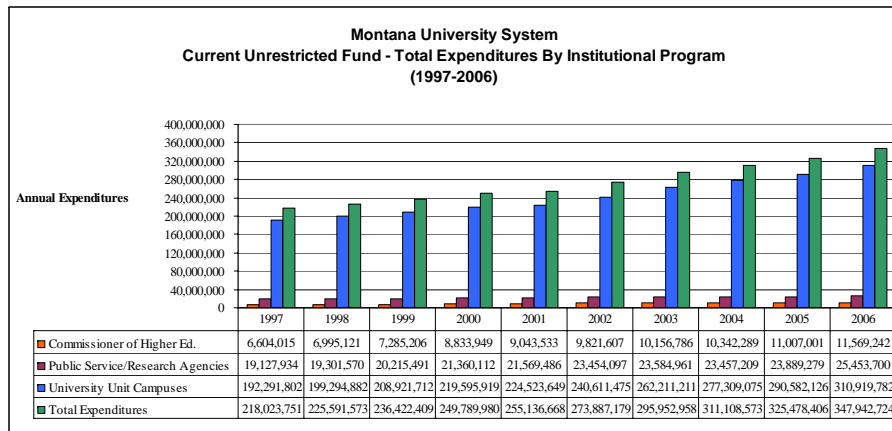
Montana University System: 20 Years of Funding History 1988-2007:  
State Support vs. Tuition for Educational Units



- In FY 2003, the federal government recalled GSL fund balance reserves, so this return of approximately \$5.6 million of loan reserve funds shows up as an Operations expense at that time, contributing to "expenditure growth"
- Also, the federal Gear Up grant program (academic support for at-risk students) was launched in FY 2002, adding \$2.4 million per year of federal revenue expenditures
- There is a dramatic decrease of 26 percent in State Special Revenue expenditures in FY 2002, which is a result of property tax reform that reduced the absolute revenue for the MUS from the 6-mill state levy by approximately \$5.8 million
- General fund expenditures experienced steady but not dramatic growth, until the period 1999-2002 when there was an average of 6.1 percent annual growth, after which there is a 3 percent decrease in FY 2003. These fluctuations can be explained by the following events:
  - In FY 1999 through 2001, there were annual increases of \$2 million for the WICHE/WWAMI and MTAP student assistance programs and annual increases of \$1.3 million for community college assistance for total annual increases of \$3.3 million. During this period, there was also significant general fund expenditure growth because of pay plan increases against an FTE base of 3982.93, as well as increased funding to support enrollment growth
  - Also during this period, property tax reform dramatically reduced the 6-mill levy revenue to support the MUS, which would be state special revenue. In order to address this decrease, general fund revenue was increased by some \$6 million in the 2003 biennium (\$3 million per year)
  - Finally, the 2003 general fund expenditure decrease reflects the August 2002 Special Session reductions, which were also carried into the 2005 biennium budget
- General fund expenditures also spike in 2006, an increase of \$17 million over the prior year, for the following reasons:
  - \$6.5 million to fund new equipment purchases for 2-year programs, including the community colleges and tribal colleges
  - \$1 million of new funding for student financial assistance
  - \$1.6 million to fund enrollment increases and other present law adjustments, as well as special program development funding for the community colleges
  - \$6.5 million to support present law adjustments and the pay plan for the university educational units



Throughout this 10-year period, general fund revenue increased at a rate of 3.6 percent per year, state special revenue decreased at a rate of 1.5 percent per year, federal revenue increased at a rate of 15.7 percent per year, and overall total revenue increased at a rate of 4.6 percent per year. Finally, if you factor in the \$24 million accounting change in the Guaranteed Student Loan program that artificially inflates the growth rate (it does not reflect an actual change in activity) in federal special revenue, the average growth rate of overall state expenditures for the MUS during the period 1996 to 2006 declines to 3.3 percent.



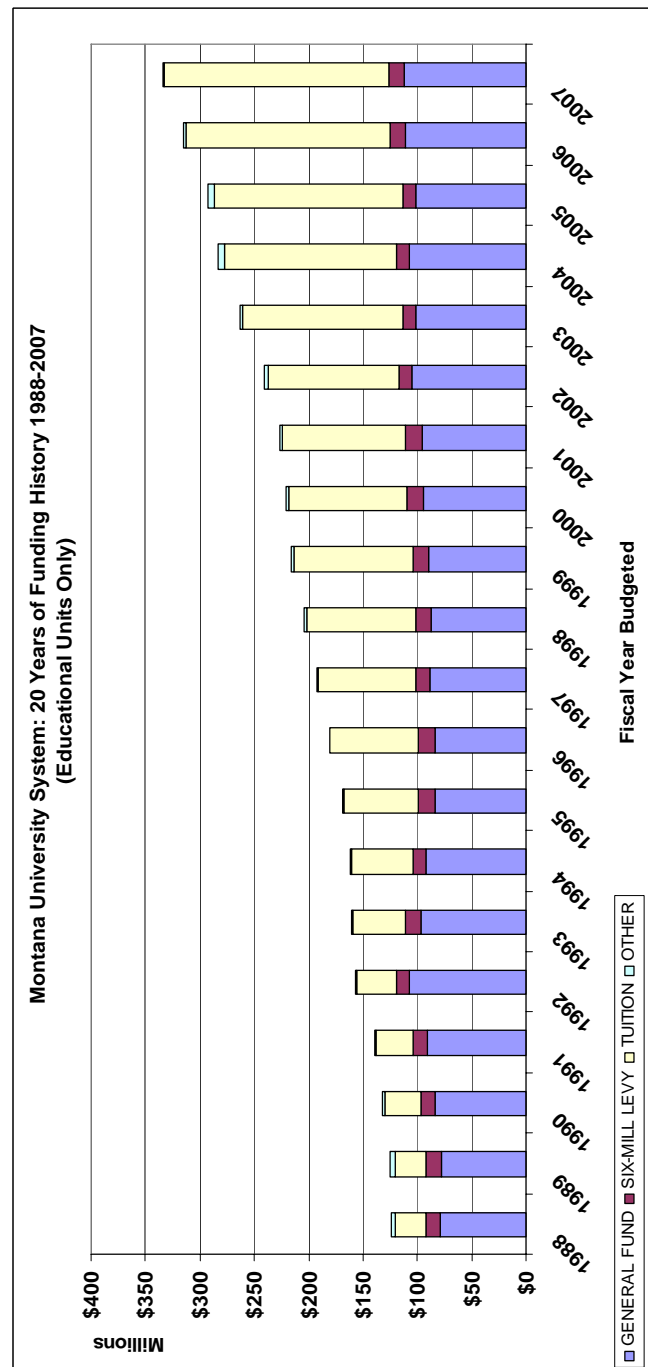
Montana University System - Growth of Current Unrestricted Fund Expenditures

University System Program	Institution Type as Percent of All Expenditures		Average Annual Expend. Growth (1997 - 2006)	Total Expenditure Growth Over Ten Years
	1997	2006		
Univ. Unit Campuses	88.2%	89.4%	5.5%	61.7%
Public Service/Research Agencies	8.8%	7.3%	3.2%	33.1%
Commissioner of Higher Ed.	3.0%	3.3%	6.4%	75.2%
<b>Total Expenditures</b>	<b>100%</b>	<b>100%</b>	<b>5.33%</b>	<b>59.59%</b>

Source: Montana University System, Operating Budgets (1997-2006), System Schedule 13



As noted above, the Current Unrestricted Fund supports the “essential educational mission” of the MUS, as the largest expenditure programs in this fund include instruction at 46 percent, academic support at 10 percent, student services at 7 percent, and scholarships/fellowships at 6 percent. Meanwhile, the revenue sources for these expenditures include state funding, student tuition and fees, and



**HISTORICAL FUNDING - EDUCATIONAL UNITS ONLY**  
**MONTANA UNIVERSITY SYSTEM (MUS)**  
**Fiscal Years 1988 - 2007 (Updated April 2006)**  
**Budgeted Revenue by Source**

Source	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
OTHER	3,616,136	4,291,643	2,814,464	1,281,955	624,082	630,350	805,886	699,409	764,437	731,686	2,448,861
SIX-MILL LEVY	12,864,200	13,714,294	12,837,000	12,817,999	12,852,005	14,644,261	12,518,000	14,807,000	15,079,000	13,840,000	13,864,000
TUITION	28,774,984	28,773,909	32,862,875	34,126,897	36,363,050	48,573,393	56,747,054	68,346,098	81,440,201	89,719,958	100,240,444
GENERAL FUND	79,224,801	78,394,914	84,051,010	91,125,964	106,843,252	96,418,127	91,575,775	84,320,589	83,648,540	87,966,179	87,464,402
TOTAL	124,480,121	125,174,760	132,565,349	139,352,815	156,682,389	160,268,131	161,646,715	168,173,096	180,932,178	192,257,823	204,017,707
STATESUPPORT	92,089,001	92,109,208	96,888,010	103,943,963	119,695,257	111,062,388	104,093,775	99,127,589	98,727,540	101,806,179	101,328,402
State Support as % of Total	74.0%	73.6%	73.1%	74.6%	76.4%	69.3%	64.4%	58.9%	54.6%	53.0%	49.7%
Tuition as % of Total	23.1%	23.0%	24.8%	24.3%	23.2%	30.3%	35.1%	40.6%	45.0%	46.7%	49.1%

Source	1999	2000	2001	2002	2003	2004	2005	2006	2007	Annual % Change
OTHER	3,134,954	2,313,795	2,504,907	3,002,673	2,970,384	5,946,357	6,355,565	2,558,151	2,007,205	-3.1%
SIX-MILL LEVY	14,319,118	14,809,000	15,280,000	11,868,912	12,036,912	12,235,000	12,362,999	13,385,001	13,679,000	0.3%
TUITION	109,576,801	108,577,974	112,934,296	120,897,552	147,022,505	158,086,393	172,721,055	188,215,243	206,049,651	10.9%
GENERAL FUND	89,087,185	94,922,977	95,844,703	104,849,450	101,347,323	107,186,837	101,381,233	111,395,004	112,552,060	1.9%
TOTAL	216,118,058	220,623,746	226,563,906	240,618,587	263,377,124	283,454,587	292,820,852	315,553,399	334,287,916	5.3%
STATESUPPORT	103,406,303	109,731,977	111,124,703	116,718,362	113,384,235	119,421,837	113,744,232	124,780,005	126,231,060	1.7%
State Support as % of Total	47.8%	49.7%	49.0%	48.5%	43.1%	42.1%	38.8%	39.5%	37.8%	-3.5%
Tuition as % of Total	50.7%	49.2%	49.8%	50.2%	55.8%	55.8%	59.0%	59.6%	61.6%	5.3%

The current unrestricted fund chart illustrates that expenditure growth in the Current Unrestricted Fund has averaged about 5.3 percent per year over the last decade, with the highest growth rate coming in the Office of the Commissioner of Higher Education (OCHE). As discussed earlier in the HB 2 expenditure analysis, however, a large portion of this growth is driven by federal funding/accounting changes to the Guaranteed Student Loan Program and the creation in 2002 of the Gear-Up program. If you back out this federal revenue, the annual growth rate for OCHE is approximately 4 percent.

In the public service/research agencies, the annual growth rate is 3.2 percent. Among these five agencies, the Agriculture Experiment Station represents 55 percent of the expenditures, the Extension Service represents 29 percent, the Bureau of Mines represents 10 percent, the Forest Conservation Experiment Station represents 4 percent, and the Fire Services Training School represents 2 percent. What distinguishes the agencies from the university unit campuses in the area of financing is that these agencies do not receive revenue from "student tuition and fees". Their primary funding source is state general fund and state special revenue, with additional federal grant funding.

The most significant expenditures in the Current Unrestricted Fund are the university unit campuses, as they comprise 89 percent of all expenditures from this fund. The average annual growth rate of the campus units has been 5.5 percent, with tuition revenue the largest revenue source (about 53 percent). Among the most significant areas of expenditure growth are plant operations at a 7 percent annual growth rate, totaling \$40 million per year in total costs in FY 2006. This reflects a growth in total square footage of buildings across all campuses as well as increased costs, such as utility rates.

Student scholarships/fellowships have seen growth at an annual rate of 13 percent as these costs total \$22 million in FY 2006. Driving this increase is both an increase in the number of students awarded scholarship aid and also the increasing tuition rates that raise the cost value of each scholarship award.

Once again, it is here, in the Current Unrestricted Fund of the MUS, that the educational mission is funded and where all state funding is appropriated. Therefore, it is in this area of operations that the legislature has the opportunity to effect change and bring public policy matters to bear on higher education in Montana.

## Reasons for Expenditure Growth/ Change for Current Unrestricted Fund



As noted earlier, the primary driver of growth in OCHE during this time is related to accounting changes and growth in federal revenue expenditures (GSL and Gear-Up). If you exclude federal revenue program expenditures, the growth rate for OCHE is reduced to 4.05 percent, with health insurance and employee benefit costs the primary growth drivers.

In the research/education agencies, a statistical data change skews the expenditure growth rate upwards so that accounting for that change, the actual growth rate for these agencies is approximately 3.6 percent. Most of the actual growth can be explained by additional FTE in the Agriculture Experiment Station (AES) and Extension Services (ES).

The Educational Units, the University of Montana and Montana State University units, experienced a 5.0 percent expenditure growth rate. The most significant driver of growth has been steady enrollment increases in the 2-year and college of technology programs (see enrollment data below), as the Helena College of Technology experienced 7.28 percent expenditure growth and the Great Falls College of Technology experienced 8.00 percent growth during this 8-year period.

Montana University System Summary of Expenditures - All Funds				
	Actual FY2005	Percent of Total	Budgeted FY2006	Percent of Total
Current Unrestricted	\$317,564,038	37.5%	\$352,682,309	36.6%
Current Restricted	249,700,307	29.5%	294,569,215	30.6%
Current Designated	158,298,323	18.7%	164,243,172	17.0%
Auxiliary Fund	74,587,658	8.8%	81,738,627	8.5%
Plant Fund	45,674,697	5.4%	69,741,709	7.2%
Loan Fund	451,017	0.05%	543,731	0.06%
Endowment Fund	254,969	0.03%	334,988	0.03%
Total	<u>\$846,531,009</u>	<u>100.0%</u>	<u>\$963,853,751</u>	<u>100.0%</u>
State Funding	\$162,982,838		\$175,145,034	
Percent of Total	19.3%		18.2%	

Source: Board of Regents Operating Budget (Attachment C and Form XX2), September, 2005

The summary of expenditures chart on page 12 demonstrates total expenditures for the MUS for all funds during the last two fiscal years, with the percentage allocations of expenditures to each specific fund. Recall that almost all state-appropriated funds are allocated to the Current Unrestricted fund, and are used as part of university system educational operations. In FY 2005, state funds comprise 19.3 percent of all expenditures and in FY 2006, state funds comprise 18.2 percent of all MUS expenditures. The single largest increase in expenditures across the MUS, comes in the Plant Fund, which reflects increases specific to utility costs but also reflects growth in the number of buildings and facilities on campuses across the university educational units.

## State Percent Share Factor in MUS Budget

An important component of the MUS budget is the “state percent share” factor that is used to determine the amount that the state budget will fund present law adjustments and the pay plan during each biennium budget. As with other state agencies, when there are other revenue sources available to fund agency programs, present law increases and pay plan appropriations are funded only at the proportion that state funding represents in the base year expenditure budget. For the university system, the primary “other revenue funding source” is student tuition, so that at whatever percentage the state budget funds present law increases and the pay plan, the remaining funding will come from tuition.

Historically, the state percent share of funding for the university educational units is derived through a formula that looks at the ratio between state funding and the total revenue that funds the base year expenditures for the units. As with virtually all state agencies, each biennial budget starts with base year expenditures that establish the subsequent “base” level of funding for the next budget. So in the current 2007 biennium budget, the “base” from which the FY 2006 and FY 2007 budgets are built is the actual expenditures, as adjusted, for FY 2004.

The graphs and charts on the following three pages provide a historic illustration of the proportional funding ratio between state funds and tuition revenue.